

GLOBAL ACCOUNT PLAN

Company Name: Chemring Energetics UK Limited http://www.chemringenergetics.co.uk/	CRM ID: 38(1)(b)
1. Company Growth Strategy	

Group Background

The Group's vision is to be the leading developer and manufacturer of advanced detection, countermeasure and energetic technologies to defeat threats from radio frequency and network-based electronic warfare, IEDs, chemical and biological agents, and guided missiles.

The Group's strategy is to position itself for growth through innovation, manufacturing excellence and exploitation of intellectual property.

Chemring Group PLC HQ: Role Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN - <http://www.chemring.co.uk/>

Chemring Group PLC is a global business that specialises in the manufacture of high-technology products. Chemring operates in three strategic product segments: Countermeasures, Sensors & Electronics, and **Energetic Systems**, and delivers high-reliability solutions to protect people, platforms, missions and information against constantly changing threats. With global production facilities, Chemring meets specific customer requirements in defence and security markets in more than fifty countries worldwide. It should be noted that the Scottish facility at Ardeer sits within the Energetic Systems segment.

For info the Ardeer site sits within the Energetic Systems segment.

In 2017 Group revenue was £547.5M (2016: £477.1 million).

Safety, operational and financial performance improvements continue

Operating profit growth of 14% to £55.4m

Operational Excellence Programme delivering further improvements in safety, knowledge sharing, gross margins and cash generation

Order book at year end of £478m (2016: £593m)

In 2017 the Group continued to build on its improved performance of recent years, delivering strong results that exceeded expectations from both a financial and operational performance perspective. Significant progress has been made on the Operational Excellence Programme, with tangible sustainable results already delivered and further improvement in the pipeline. Improvements from Countermeasures and Sensors, together with the Operational Excellence Programme, are due to offset scheduled reductions in Energetics. The Group began the year with approximately £360m of orders due to be recognised as revenue in FY18, representing 70% of targeted FY18 revenues.

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33(1)(b) The situation for US defence spending is more stable than it has been for some time, and ongoing geopolitical tensions in the Middle East and elsewhere emphasize the need for robust defence and security measures. The timing of Middle East order placement and contract activity remains difficult to predict, in part due to the impact that recent falls in the oil price are having on Government spending in the region. Nevertheless, their continued customer focus means the Group is well positioned to benefit from any sustained increase in demand in its markets.

Chemring's three strategic product segments:

Countermeasures - Chemring is well-established as the world's leading manufacturer of expendable decoys to protect aircraft and ships from the growing threat of guided missiles.

Sensors & Electronics - Chemring's sensors and electronics products include world-leading systems for detecting improvised explosive devices ("IEDs"), and chemical and biological agents, and core technologies for detecting, intercepting and jamming electronic communications.

Energetic Systems - Chemring's energetic sub-systems are safety-critical components of missiles, aircraft and space launch systems. Operators and prime contractors depend on Chemring's very high reliability, single-use devices to perform key functions, including satellite deployment, aircrew egress and missile self-destruct. Chemring manufactures a range of pyrotechnic products which are used by military and security forces around the world for screening, signalling and illumination.

Company Strategy (Global & Scottish)

The Group has undertaken a comprehensive Strategic Planning Process to determine its business strategy. This has provided a clear view for each of Chemring's business units of their current market environment, competitive dynamics and future prospects. It has confirmed strong market-leading positions and the strength of the Group's technology in a number of areas, whilst highlighting new defence and adjacent non-defence opportunities.

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The Group's strategy is to reposition itself for growth through the innovation and exploitation of intellectual property. This will focus on Chemring's core competencies, directing investment into those lines of business which have technologies, products and market positioning that provides the greatest opportunity to achieve sustainable high margins and revenue growth.

Historically, Chemring has adopted a strategy and structure focused on being able to respond quickly to urgent requirements in rapidly changing operational scenarios. This approach supported a regional divisional structure, and strong local investment in facilities, equipment and research and development. As current NATO operations draw to a close, Chemring has refocused its strategy on highly-targeted investment across the portfolio, delivering structural efficiencies and improving operational performance.

Chemring's Energetic Sub-Systems segment is complex, with a wide variety of products produced infrequently in batch production runs.

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33(1)(b) The market is stable, with significant qualification costs and other barriers to entry, and the segment therefore has the potential to improve margins. However, recent operational challenges have impacted performance.

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Company's Growth Ambition (Global & Scottish)

Revenue for the Energetic Systems segment increased by £89.5 million to £241.9 million (2015: £152.4 million). This improved performance was primarily as a result of a contract with a customer in the Middle East which, despite its delayed start, has performed well and contributed £44.5 million of revenue. Margins improved from 9.9% to 13.1% and Energetic Systems increased its operating profit by 109.9% to £31.7 million (2015: £15.1 million).

The Group intends to secure the position of its Energetic Systems components on next-generation platforms for missile and space programmes in the United States and Europe, through improved delivery performance on current programmes and strong customer and partner interaction. In military pyrotechnics, it intends to upgrade key products to ensure that it can offer the full range of rockets, smoke grenades and flares required by its military and security customers. In addition to maintaining and upgrading its current business base and product offering, the Group intends to

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Scottish Site – Background & Importance

As highlighted above Chemring Energetics is part of the Group's Energetics segment.

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The Ardeer peninsula in North Ayrshire has been home to chemical manufacturing facilities for some 135 years. Alfred Nobel first established a factory to produce dynamite there in 1871. At its peak under the ownership of ICI, the Nobel factory employed some 15,000 people, hence contributing not only to the prosperity of the surrounding towns (Kilwinning, Irvine, Ardrossan, Saltcoats, Stevenston), but also to the pattern of growth as the industry safety zones had to be respected.

Nowadays, with the exception of BPI which is located on the western edge of Ardeer, all the industrial activity on the peninsula is undertaken by Chemring Energetics. The operation at Ardeer was previously owned (since 1st January 2002) by the Inabata Corporation, a Japanese trading company before being acquired by Chemring Group PLC, a defence industry company based in Hampshire on 1st September 2005. Chemring Group plc is an international leader in energetic materials, components and systems, and expendable countermeasures, with manufacturing operations in the UK, the US, Europe and Australia.

At Ardeer Chemring Energetics manufactures rocket motors, rocket motor igniters, electro-explosive devices, solid propellant gas generators, power cartridges, demolition detonators, and ignition cord. These products are used in applications including rocket propulsion systems, airborne release systems, missile guidance systems, demolition and industrial safety systems.

The vision for the Ardeer site, which employs circa 290 employees, is that it will be the Group's centre of excellence for explosives and propellants. Chemring are a major supplier to the MoD with the Ardeer site having the distinction of being the only facility in the UK which is licensed to handle primary explosives.

Key Customers - 33(1)(b)

Key Competitors - 33(1)(b)

The Site's strategy is underpinned by focussing on a number of key performance indicators:

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Opportunities & Risks

Opportunities are detailed within this document in terms of maintaining market share of core business (MoD) although main thrust of acc't team activity revolves around developing non-defence related opportunities.

Chemring Energetics can be affected by a number of risks, not all of which are within their control. Below are some of the more significant factors:

- Health & safety - The Group continues to invest in state-of-the-art process safety systems and equipment. Health and safety is included on the agenda at every Board meeting and is discussed at the monthly Group Executive Committee meeting.
- Defence budget cuts - Defence spending levels depend on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. As such, defence spending may be subject to significant fluctuations from year to year. In 2015, UK defence budgets may also be affected by additional spending reviews triggered by the outcome of the May 2015 general election. Given the large budget deficits and the prevailing economic conditions in many NATO countries, the Group expects there to be continued downward pressure on budgets and consequently defence expenditure could be severely impacted, therefore the requirement to look at non-defence related opportunities.
- Political risk - The Group's businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that they are aware of and can react to changes, if and when they occur.
- Energy costs – efficiency of Ardeer site can be heavily influenced by fluctuating energy costs.

2. Objectives & Account Planning

Key Objectives of working with Chemring

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Key Contacts

Chemring Group PLC

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SE Account Team

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3. Industry Overview/Sector Plans

Most recent figures show that Scottish ADMS companies together employed well over 38,000 people in Scotland. The 825 companies operating in the sector had combined sales of over £5.5 billion, together producing a Gross Value Add (GVA) to the economy of £1.76 billion. Scottish-based companies are involved in a broad range of activities, including but not limited to:

- Development and manufacture of aerostructures and aero-engine components
- Aerospace maintenance, repair and overall (MRO)
- Shipbuilding, boat building and repair
- Aerospace, defence and marine equipment and electronics
- Commercial ship management and maritime activity
- Space manufacturing and services
- Cyber and data security services and products
- ADMS-related engineering business services, design and R&D

The list is extensive and continues to expand as companies invest in start-ups and growth in Scotland. The Scottish ADMS sector is a microcosm of the wider UK industry. However, the profile and activities of companies involved in the sector in Scotland, its attributes and advantages, specific challenges faced and opportunities available, makes it appropriate for SE strategy to adopt specialised approaches to help secure future success for the ADMS sector in Scotland. The ADMS sector has a vital role to play in the Scottish Government's ambition to achieve a strengthened role for manufacturing in terms of contribution to the Scottish economy. This is clearly articulated in the latest Economic Strategy and the Programme for Government.

Despite shrinking Defence budgets in the UK and USA, the UK industry supports £22 billion worth of annual sales, contributes

£9.8 billion in exports and sustains more than 160,000 jobs. The UK Defence sector is a key driver of innovation and boasts a highly skilled workforce utilising the best technology and engineering know-how on programmes such as the Eurofighter Typhoon and Queen Elizabeth Class Aircraft Carrier. The UK Government has identified Air Capabilities and Intelligent Systems as key technology capabilities for the UK which it will support into increasingly competitive international defence markets, investing £82 billion per annum for the next eight years.

4. Major Investments/Activities (past 3 years)

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5. Key Engagements

- Chemring HQ engagement has been limited therefore this is an area that requires attention.

6. Development Projects & Pipeline

Projects currently under discussion:

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